
THE DEPARTMENT OF THE TREASURY DISTRICT OF COLUMBIA PENSIONS PROGRAM



**FISCAL YEAR 2004
ANNUAL REPORT**

MESSAGE FROM THE ACTING ASSISTANT SECRETARY FOR MANAGEMENT

As Acting Assistant Secretary for Management and Chief Financial Officer, I am pleased to present the Fiscal Year 2004 Annual Report for the Department of the Treasury's District of Columbia Pensions Program. The mission of the Office of D.C. Pensions is to implement the Secretary's responsibilities under Title XI of the Balanced Budget Act of 1997, as amended, by making timely and accurate Federal benefit payments associated with the District of Columbia Retirement Programs for police officers and firefighters, teachers, and judges. I am proud to acknowledge that for the sixth consecutive year the program has received an unqualified opinion on its financial statements.

I am also pleased to introduce Rochelle F. Granat, the new Director of the Office of D.C. Pensions. Ms. Granat became Director in June 2004, when she returned to Treasury after serving as the Deputy Chief Counsel for General Law at the newly established Transportation Security Administration (TSA). For several years immediately prior to her service at TSA, Ms. Granat served as Treasury's Deputy Assistant General Counsel for General Law and Ethics, where her responsibilities included supervision of legal support to the Office of D.C. Pensions during its development.

Mary Beth Shaw, the former Director of the Office of D.C. Pensions, is now the Executive for D.C. Pensions' Policy Development and Oversight. She and Ms. Granat bring consistent leadership, customer service focus and prudent financial management to the Office's policies and operations.

I am confident that the Office of D.C. Pensions will continue to serve the interests of the annuitant population and the Department of the Treasury with integrity and efficiency.

Jesus Delgado-Jenkins
Acting Assistant Secretary for Management

MESSAGE FROM THE DIRECTOR

I am pleased to present the Fiscal Year (FY) 2004 Annual Report for the Department of the Treasury's Office of D.C. Pensions. This Annual Report contains the D.C. Pensions Program's financial statements, program activities, and goals and accomplishments. KPMG LLP, an independent public accountant, rendered an unqualified opinion on the Office of D.C. Pensions' FY 2004 financial statements. KPMG noted no matters involving internal control that it considers to be material and no instances of noncompliance with laws and regulations. This is the sixth consecutive year that the auditors rendered an unqualified opinion on the Office of D.C. Pensions' financial statements.



Pursuant to the Balanced Budget Act of 1997, as amended (the Act), the Secretary of the Treasury established the District of Columbia Federal Pension Liability Trust Fund (Trust Fund), and the Federal Supplemental District of Columbia Pension Fund to pay the federal portion of the police officers' and firefighters', and teachers' pensions, and the District of Columbia Judicial Retirement and Survivors Annuity Fund (Judicial Retirement Fund) to pay the judges' pensions. As of September 30, 2004, the three funds held assets of approximately \$3.9 billion which, consistent with the Act, are invested in U.S. Treasury securities. Fund liabilities were approximately \$8.4 billion resulting in unfunded liabilities of approximately \$4.4 billion.

During FY 2004, the office continued to make significant progress in addressing our major priorities: making timely and accurate benefit payments, implementing an automated pension/payroll system (the System to Administer Retirement or STAR), improving customer service and resolving outstanding policy and legal issues. The Office paid on time \$462 million in Federal benefits and refunds of employee contributions from the assets of the Trust Fund and the Judicial Retirement Fund. STAR supports all annuitants under the Judges' Retirement Plan and approximately 11,000 individuals who retired prior to July 1997, and their survivors, under the Police Officers' and Firefighters', and Teachers' Retirement Plans. The next major component of STAR development will support the post-June 30, 1997, population and add the capability to process new retirees. Work on this component is well under way.

We will continue to work cooperatively with the District to provide quality service to the annuitants and to carry out the Department of the Treasury's responsibilities under the Act.

Rochelle F. Granat, Director
Office of D.C. Pensions
Department of the Treasury

Office of D.C. Pensions

Office of the Assistant Secretary for Management

And Chief Financial Officer

Departmental Offices, U.S. Department of Treasury

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PART 1

MANAGEMENT'S DISCUSSION AND ANALYSIS

OFFICE OF D.C. PENSIONS

*Office of the Assistant Secretary for Management
and Chief Financial Officer
Departmental Offices, U.S. Department of the Treasury*

FISCAL YEAR 2004 MANAGEMENT'S DISCUSSION AND ANALYSIS

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OFFICE OF D.C. PENSIONS

*Office of the Assistant Secretary for Management
and Chief Financial Officer
Departmental Offices, U.S. Department of the Treasury*

FISCAL YEAR 2004 MANAGEMENT'S DISCUSSION AND ANALYSIS

Mission Statement

The mission of the Office of D.C. Pensions is to implement the Secretary's responsibilities under Title XI of the Balanced Budget Act of 1997, Pub. L. 105-33 (111 Stat. 251, 712), as amended, by making timely and accurate federal benefit payments associated with the District of Columbia Retirement Programs for police officers and firefighters, teachers, and judges.

I. Introduction

A. *Statutory Basis and Responsibilities*

Under provisions in the Balanced Budget Act of 1997, as amended (the Act), the Secretary of the Treasury (the Secretary) assumed certain responsibilities for a specific population of annuitants under certain District of Columbia (District) retirement plans. The Act was enacted August 5, 1997, with an effective date of October 1, 1997.

The annuitant population includes retired District police officers, firefighters, and teachers, and their survivors, based on service accrued through June 30, 1997 (pre-97), and retired judges, and their survivors, regardless of when service accrued.

The Department of the Treasury's responsibilities for the specified population include: (1) making accurate and timely benefit payments; (2) investing fund assets; and (3) funding pension benefits. To carry out these responsibilities, Treasury engages in a wide range of activities including legal, policy, and operational analysis; actuarial, audit, accounting, investments, and financial reporting; benefits administration; information technology; and procurement services.

All benefit payments that are the responsibility of the Treasury under the District retirement programs are referred to herein as Federal Benefit Payments. All benefit payments to which an individual is entitled under the District of Columbia Replacement Plan (based upon service accrued after June 30, 1997) are referred to as District Benefit Payments.

B. Organizational Structure and Staffing

Treasury's responsibilities are carried out by the Office of D.C. Pensions (the Office) in the Office of the Assistant Secretary for Management and Chief Financial Officer (ASM/CFO). The ASM/CFO reports through the Deputy Secretary to the Secretary of the Treasury.

The Office is staffed in a quasi-matrix management arrangement comprised of the core program office and supplemented by staff from other Treasury offices that provide expertise in areas needed to implement the Act. These offices are General Counsel, Procurement Services Division, and the Office of Human Resources Operations.

Pursuant to an inter-agency agreement, administrative accounting for the Office is performed by the Treasury's Bureau of the Public Debt (BPD), Administrative Resource Center (ARC), in Parkersburg, West Virginia. ARC also performs payroll services, system administration, and system hosting for the System to Administer Retirement (STAR), an integrated pension/payroll system.

As of September 30, 2004, funding for 23 Treasury positions came from the District of Columbia Federal Pension Liability Trust Fund (Trust Fund) and the District of Columbia Judicial Retirement and Survivors Annuity Fund (Judicial Retirement Fund).

II. D.C. Pensions Program

A. Strategic Goals

The Department of the Treasury has five strategic goals:

- Promote Prosperous U.S. and World Economies
- Promote Stable U.S. and World Economies
- Preserve the Integrity of Financial Systems
- Manage the U.S. Government's Finances Effectively
- Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury

For Fiscal Years (FY) 2004 – 2006, the Office has four strategic goals that link to two of the Department's five strategic goals:

- Manage the U.S. Government's Finances Effectively
 1. Ensure all Federal Benefit Payments are accurate and timely
 2. Ensure the effective management and/or investment of funds in the custody of the Treasury
 3. Improve customer satisfaction

- Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury

1. Improve employee satisfaction

The Office has targets and measures in place to meet its strategic goals. The following table displays the link between the Office goals and the two Department goals. In addition, the table identifies targets and measures, as well as FY 2004 results, for each Office goal.

B. Strategic Goals and Performance Targets, Measures, and Results

Fiscal Years 2004 – 2006				Fiscal Year 2004
Department's Strategic Goal	D.C. Pensions Strategic Goal	D.C. Pensions Performance Target	D.C. Pensions Performance Measure	D.C. Pensions Performance Results
Manage the U.S. Government's Finances Effectively	Ensure all Federal Benefit Payments are accurate and timely	Make funds available to pay benefits and expenses when due	Provide funds timely to D.C. to make payments monthly Maintain adequate cash balances and maturing securities to meet monthly obligations	During FY 2004 Treasury funded benefit payments and refunds of employee contributions from the assets of the Trust and Judicial Retirement Funds on all due dates requested by the District. Treasury paid \$462 million in benefit payments and refunds of employee contributions. The Office maintained adequate cash balances and maturing securities to meet monthly obligations, with no exceptions.
		Implement a pension/payroll system to improve processing time and accurately determine Federal Benefit Payments	Implement automated system and validate accurate performance	STAR Release 1 was implemented in December 2002 and made the first payments to judges and their survivors in January 2003. STAR Release 2 was implemented in September 2003 and made the first payments in October 2003 to police officers, firefighters, and teachers, who retired before July 1997, and their survivors. STAR Release 3, which will cover annuitants who retired after June 30, 1997, and their survivors, is under development.
	Ensure the effective management and/or investment of funds in the custody of the Treasury	Invest funds in accordance with Treasury policies	Invest all available funds promptly Review and update investment policies annually	The Office fully invested all available cash in FY 2004, with no exceptions. The Office reviewed investment policies for the Trust Fund, the Supplemental Fund, and the Judicial Retirement Fund and provided updated guidance to BPD for investments of the FY 2004 appropriation and for FY 2005 investments.
		Obtain an unqualified opinion on financial statements	Auditors issue an unqualified opinion	KPMG LLP, an independent auditor, rendered an unqualified opinion on the Office's financial statements for FY 2004.
		Provide actuarial information to update investment strategies and determine annual deposits to the Supplemental and Judicial Retirement Funds	Issue actuarial report on timeline to meet audit report requirements	Consistent with the Act, in September 2004, based on actuarial information and analysis of administrative expenses contained in the actuarial report as of October 2003, Treasury deposited \$270 million into the Supplemental Fund and \$7.5 million into the Judicial Fund and immediately invested these amounts in non-marketable Treasury securities. The enrolled actuary issued a report as of October 1, 2004, providing all information necessary to meet the Department's FY 2004 audit report requirements. The actuarial report also included the amount of the deposits to be made to the Supplemental and Judicial Retirement Funds in FY 2005, and data necessary to manage, on a timely basis, the investment of funds.

Fiscal Years 2004 – 2006				Fiscal Year 2004
Department's Strategic Goal	D.C. Pensions Strategic Goal	D.C. Pensions Performance Target	D.C. Pensions Performance Measure	D.C. Pensions Performance Results
Manage the U.S. Government's Finances Effectively (continued)	Ensure the effective management and/or investment of funds in the custody of the Treasury (continued)	Achieve goals of President's Management Agenda	<p>Provide financial information timely and integrated with operational strategies and resource planning</p> <p>Implement corrections identified in FMFIA report and other reviews</p> <p>Correct erroneous benefit payments as identified</p>	<p>The Office's financial information was submitted timely to all required external entities. The Office's financial management approach integrates financial information with its resource planning requirements and uses detailed expense reports to manage operations.</p> <p>The Office continued to correct benefit determination errors. No new material weaknesses were identified.</p> <p>The Office conducts a quality assurance review on a statistical sample of all new retirement calculations monthly.</p> <p>The Office tasked BPD with implementing interim debt collection regulations covering federal benefits. The Office oversaw BPD collection of outstanding debt of \$173,343. In addition, BPD's debt prevention efforts ensured that payments were immediately recovered upon timely notification of an annuitants' death or in cases of payment errors. The total amount so recovered in FY 2004 was \$773,693.</p>
		Implement a pension payroll system to improve processing time and accurately determine Federal Benefit Payments	Implement automated system and validate accurate performance	<p>STAR Release 1 was implemented in December 2002 and made the first payments to judges and their survivors in January 2003. STAR Release 2 was implemented in September 2003 and made the first payments in October 2003 to police officers, firefighters, and teachers who retired before July 1997, and their survivors. STAR Release 3, which will cover annuitants who retired after June 30, 1997, and their survivors, is under development.</p> <p>The Office completed a rehosting of the STAR production system from a contractor facility to BPD and the requisite security certification and accreditation was granted by the Director. The rehosting will save the program approximately \$3 million over 10 years and facilitate enhanced customer service.</p> <p>The Office's Change Control Board (CCB) continued to be the sole approving authority for all system changes. The CCB evaluates cost benefits and risks associated with any changes and prioritizes the changes. The process enhances accountability and internal controls.</p>

Fiscal Years 2004 – 2006				Fiscal Year 2004
Department's Strategic Goal	D.C. Pensions Strategic Goal	D.C. Pensions Performance Target	D.C. Pensions Performance Measure	D.C. Pensions Performance Results
Manage the U.S. Government's Finances Effectively	Improve customer satisfaction	Provide annuitants with retirement plan information that is clear, concise, and accurate	Continue to maintain and provide accurate and current information	<p>The D.C. Office of Pay and Retirement Services (OPRS) processes new retirement benefit calculations. The Office conducted quality assurance reviews of the majority of new benefit calculations for FY 2003 and a statistical sample of new annuitant calculations in FY 2004. The Office and OPRS worked together to resolve discrepancies in benefit calculations and made the necessary adjustments. The Office provided targeted training to OPRS to address recurring issues in benefit calculations.</p> <p>The Office continues to issue the STAR Bulletin, a newsletter for annuitants, which is sent out semi-annually. The latest issue was mailed in May 2004.</p> <p>In July 2004 the Office implemented a new program at OPRS to welcome new annuitants and provide information on the calculation of their initial annuity.</p> <p>The Office provided OPRS Customer Service Team with job aids such as standard responses to frequently asked questions which assisted the team in providing more thorough and consistent benefit information to the annuitants. STAR allows examiners to quickly access annuitant information and provide customers with real-time customer service.</p> <p>The Office implemented legislative changes in support of the annuitants, such as Cost-Of-Living-Adjustment, Equalization, and post-56 military service buyback.</p>
		Develop a comprehensive customer service plan	<p>Implement a customer service plan through a comprehensive outreach to stakeholders and annuitants</p> <p>Develop customer service standards for the benefits administrator</p>	<p>The Office continued to work collaboratively with employee and retiree representatives to ensure consideration of customer needs and preferences. The Office focused on improvements in customer service in FY 2004 through error corrections and improved communications with all stakeholders.</p> <p>To accommodate requests, the Office reprinted the Teacher's Summary Plan Description in August 2004. Additional inventory was provided to the D.C. Retirement Board (DCRB) for distribution.</p> <p>The Office continues to work with OPRS in an organizational realignment to provide more effective customer service.</p> <p>The Office, DCRB and OPRS began planning for the transfer of benefits administration functions from OPRS to the DCRB. The transfer will take place in the beginning of fiscal year 2006.</p>
Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury	Improve employee satisfaction	Develop staff through performance plans supporting the Office's goals	<p>Ensure each employee has a current Individual Development Plan (IDP) consistent with Office goals</p> <p>Performance reviews are conducted quarterly and feedback is provided timely</p>	<p>Each Office employee has a current IDP consistent with Office and individual goals.</p> <p>Performance reviews are conducted quarterly. Supervisors provide feedback to employees on a timely basis.</p>

C. Implementation of the System to Administer Retirement (STAR)

Treasury and the District continue to implement the System to Administer Retirement (STAR). STAR supports retirement business processes, streamlines the administration and payment of pension benefits, and supports enhancements in customer service. STAR is based on a minimally customized version of PeopleSoft's off-the-shelf software for human resources, pensions, and payroll administration. The Office's Change Control Board (CCB) continued to be the sole approving authority for all system changes. The CCB evaluates cost benefits and risks associated with any changes and prioritizes the changes. The CCB process enhances accountability and internal controls.

The Office implemented the first release (Release 1) of STAR in December 2002. Release 1 serves all annuitants of the Judges' Retirement Plan. The Office implemented the second release (Release 2) of STAR in September 2003. Release 2 serves approximately 11,000 police officers, firefighters, and teachers who retired before July 1997, and their survivors. The Office completed a detailed plan for the design and implementation of STAR Release 3, which will serve police officers, firefighters, and teachers who retired after June 30, 1997, and their survivors. Release 3 will include the capability to process new retirements under the retirement plans for these populations. Release 3 is under development.

The STAR system received full security certification and accreditation in January 2003 and again in August 2004. The Office completed a rehosting of the STAR production system from a contractor facility to the Bureau of the Public Debt in Parkersburg, West Virginia. This rehosting will save the program approximately \$3 million over ten years and facilitate enhanced customer service.

D. Customer Service

The Office is committed to providing excellent customer service to its external and internal customers.

1. External Customers

To ensure the satisfaction of its external customers -- retired District police officers, firefighters, teachers, and judges, and their survivors -- the Office continues to work collaboratively with its partners at OPRS, the D.C. human resources offices, and the D.C. Retirement Board (DCRB).

During FY 2004, the Office focused on several initiatives that provided benefits to its external customers, including:

- a) Provided guidance to OPRS and assisted them in implementing a new program through which OPRS notifies and provides annuitants and their survivors with a detailed explanation, in advance, of any changes to their monthly benefit payments.

b) Continued to carefully manage changes to the STAR system through the CCB. The CCB has representatives from the Office, the District, and BPD. The CCB reviewed and approved 20 change requests relating to a variety of functional and physical enhancements to the system, including changes that enabled the Office to implement legislative changes in support of the annuitants such as longevity pay adjustments and post-56 military service buyback (see section IV.B.).

c) Continued to implement an accurate, more user friendly pension/payroll system (i.e., STAR) that enables retirement examiners to quickly access information and provide annuitants with real-time customer service.

d) Provided the OPRS Customer Service Team with job aids, such as standard responses to frequently asked questions, which assisted the team in providing accurate benefit calculations or adjustments, and more thorough and consistent benefit information to the annuitants.

e) Began working with the DCRB and OPRS on planning for the transfer of benefits administration functions from OPRS to the DCRB, consistent with Council of the District of Columbia legislation.

2. Internal Customers

The Office defines its internal customers as its partners in the District and at Treasury, including Office employees. During FY 2004, the Office improved internal customer satisfaction through the following initiatives:

- a) The Office worked closely with the OPRS team to provide on-site support following STAR Release 2 implementation, provided follow-on training, and continued to develop new business practices and document existing practices.
- b) Management worked with each employee to achieve Office and individual goals through training and development, and to review performance on a quarterly basis.

E. Correction of Erroneous Payments

In FY 2004, the Office continued to implement its strategy to correct prior District errors related to benefit calculations.

The Office engaged in two error correction projects in FY 2004:

1. Application of Statutory Purchase of Service Provisions (Judges)

The Office previously had determined that the District had used incorrect methods to calculate the cost for judges to purchase credit for non-judicial service.

The Judges' Retirement Plan allows judges to elect to receive service credit for certain military and civilian service with the U.S. Government. If a judge received a lump sum payout from another civilian retirement plan for service that is creditable, the judge must deposit 3.5% of his or her basic pay for each year of service to obtain credit for the service under the judges' plan.

The judge must also pay interest on the deposit for the period from when the service ended to the date when the deposit is made. Until 1980, the interest rate was 3%. From 1980 on, the interest rate is a variable rate tied to the performance of the fund in which plan assets are held. The District continued to charge 3% after 1980, which resulted in judges who purchased service credit receiving full credit without paying the amount of interest required by statute. Other errors included the use of an incorrect interest period, the application of incorrect interest during the installment period, and minor calculation errors.

Since October 2001, at the Office's direction, active judges who initiate a purchase of service pay the correct amount of interest. In FY 2004, active judges who had paid incorrect amounts for purchases of service prior to October 2001 received notices for the amounts owed totaling, in the aggregate, approximately \$1 million. A majority of the judges have the option of accepting an actuarial reduction in their annuities to satisfy the debt. In FY 2004, the amount owed was reduced by \$180,000 by judges making payments or accepting actuarial reductions in their annuities. The Office is in the process of resolving the issue of the remaining amounts owed by the judges who had paid incorrect amounts for purchase of service.

2. Application of Statutory Military Service Provisions (Police Officers and Firefighters)

The Office previously had determined that the District had not performed the necessary benefit recalculations under the statutory post-1956 military service provisions.

By District law, determination of retirement benefits for District police officers and firefighters may include credit for military service performed after 1956. However, if the retiree is also eligible for Social Security benefits at full retirement age or for disability benefits based upon his or her wages and self-employment income, the retirement benefit from the District Retirement Plan must be recalculated to remove the portion of the benefit derived from the military service. Recalculation must occur when the retiree reaches the age to begin receiving full Social Security benefits (65+, depending on date of birth).

In early FY 2004, at Treasury's direction, the District recalculated the benefits for 42 annuitants. Past overpayments totaled approximately \$7,000. STAR has been programmed to flag members who will soon reach Social Security eligibility age so the annuities can be adjusted before any overpayments accrue and to notify the annuitants of the adjustment in a timely manner.

Public Law 108-133, the District of Columbia Military Retirement Equity Act of 2003, was enacted on November 22, 2003, to permit D.C. Police Officers' and Firefighters' Retirement Plan members to purchase eligible post-1956 military service for purposes of avoiding a reduction of their retirement benefit.

As of September 30, 2004, 100% of the annuitants who had their benefit reduced, or are targeted for a reduction before June 2005, have been notified of the new law. Seventy percent of those notified purchased their service. These annuitants had their benefit restored or prevented a future reduction, and if applicable, received a one-time retroactive pay adjustment.

F. Future Focus

The Office will plan for and achieve the major activities summarized below:

1. Develop and Implement STAR Release 3

As noted in section II.C., STAR Release 3, which will serve individuals who retired after June 30, 1997, and their survivors, under the D.C. Police Officers' and Firefighters', and Teachers' Retirement Plans, will add the capability for processing new retirements. STAR will also begin to support the post-June 30, 1997 population currently supported by the District's legacy system. Upon completion of these two initiatives, all annuitants with a federal component (full or partial) to their annuity will be supported by STAR.

2. Transfer Benefits Administration

The Council of the District of Columbia passed legislation, currently under consideration in Congress, to transfer responsibility for administration of District benefits under the D.C. Police Officers' and Firefighters', and Teachers' Retirement Plans, from the District's Office of the Chief Financial Officer to the DCRB. The DCRB is currently responsible for management of the assets required to pay District benefits. If, as the District expects, Congress passes the proposed legislation, at the beginning of FY 2006, the DCRB will assume the responsibility that is currently performed by the OPRS to administer the federal benefits under the Police Officers' and Firefighters', and Teachers' Retirement Plans. The DCRB intends to use STAR, consistent with the plans of the current benefits administrator. We expect the transition of benefits administration operations to require a significant commitment of Treasury and District resources throughout FY 2005.

3. Improve Debt Collection Operations

Building on the debt collection accomplishments of FY 2004, and in conjunction with plans to transition support of all federal benefits to STAR, BPD will continue its efforts, in FY 2005, to collect outstanding debts, improve processes to prevent debts, and promptly identify any new debts.

4. Implement Legislation Regarding Post-1956 Military Service Purchases

In FY 2005, the Office plans to notify the remaining annuitant population (see Section II.E.2.) of the new legislation, offer them the opportunity to purchase their eligible post-1956 military service, and process their requests. The District's human resources offices will be responsible for the active population.

5. Calculate the Split Benefit and End the Interim Benefits Period

Under the Act, the interim benefits period began on October 1, 1997, and ends on the date Treasury notifies the District that a trustee or Treasury will assume the duties of benefits administrator. Prior to ending the interim benefits period, the Office must be able to calculate federal and District benefit payments for members of the Police Officers' and Firefighters', and Teachers' Retirement Plans who retired after June 30, 1997, and are due a split (federal/District) benefit. Split benefit calculations are complex and will be based on a detailed set of regulations issued by Treasury in December 2001. These regulations are not effective until Treasury formally ends the interim benefits period. The Office will work with the District to design and implement an appropriate approach to calculating the split benefits.

6. Prepare Final Reconciliation

After the plan to calculate split benefits has been implemented, the Office will end the interim benefits period and work with the District to conduct the final reconciliation, accounting for transactions during the interim benefits period. The final reconciliation will include an accounting of the amounts related to federal and District responsibilities for benefits paid to plan members who retired after June 30, 1997.

After October 1, 1997, and prior to June 1999, the DCRB managed Treasury assets and paid federal benefits on Treasury's behalf. Treasury took over management of the assets in June 1999 and began paying federal benefits as well as District benefits on the District's behalf. Pursuant to the First Amended and Restated Memorandum of Understanding (MOU) Concerning Interim Administration of Retirement Programs, as amended September 30, 2000, the DCRB reimburses the Trust Fund annually for estimated District benefit payments made by Treasury during the prior fiscal year.

In Section 10 of the MOU, Treasury and the District agreed on the approach and requirements of the final reconciliation. The major requirements are that: (1) the District and DCRB provide audited reports of their transactions affecting the retirement funds during the interim benefits period; and (2) Treasury calculates split benefit payments for plan members who retired during the interim benefits period and reconciles these payments with amounts actually paid by the District to Treasury during the interim benefits period. The final reconciliation will identify amounts owed to Treasury by the District and vice-versa. In the meantime, the Office continues to monitor monthly disbursement requests from the District for benefit payments and has been working with the District and contractors to correct all known errors in benefit payments.

III. Financial Highlights

A. *Pension Funds*

The Act established three funds in Treasury to be the source of Federal Benefit Payments:

- **The District of Columbia Federal Pension Liability Trust Fund (Trust Fund)** makes Federal Benefit Payments and pays necessary administrative expenses for the Police Officers' and Firefighters', and Teachers' Retirement Plans. The Trust Fund is not a typical pension fund in that it is not a perpetual fund and does not receive employee and employer contributions. The Trust Fund receives annual payments from DCRB (see III. F. below) and earns interest on investments.
- **The Federal Supplemental District of Columbia Pension Fund (Supplemental Fund)** accumulates funds to finance Federal Benefit Payments and necessary administrative expenses for the Police Officers' and Firefighters', and Teachers' Retirement Plans. Pursuant to the Act, the funds held in the Supplemental Fund are not available for use until the Trust Fund has been depleted. The sources of funding for the Supplemental Fund are an annual federal payment amortizing the unfunded liability assumed from the District and any additional liabilities, and interest earned on investments.
- **The District of Columbia Judicial Retirement and Survivors Annuity Fund (Judicial Retirement Fund)** accumulates funds to finance Federal Benefit Payments and necessary administrative expenses of the Judicial Retirement Fund. There are three funding sources for the Judicial Retirement Fund: employee contributions, an annual federal payment amortizing the unfunded liability assumed from the District and any additional liabilities, and interest earned on investments.

The financial highlights of the pension funds for FY 2003 and FY 2004 are set forth in the table below. Investments are valued at cost, adjusted for unamortized premiums and discounts, if applicable. The premiums and discounts are recognized as adjustments to interest income, utilizing the effective interest method

Pension Funds FY 2004 and FY 2003 Financial Highlights (\$ Millions)								
	Trust Fund		Supplemental Fund		Judicial Fund		Total	
	2003	2004	2003	2004	2003	2004	2003	2004
Receipts:								
Interest	\$120.8	\$92.9	\$69.5	\$81.4	\$5.2	\$5.3	\$195.5	\$179.6
Reimbursement from DCRB	\$6.7	\$10.9					\$6.7	\$10.9
Deposits from General Fund			\$269.2	\$270.0	\$6.7	\$7.5	\$275.9	\$277.5
Deposits/Contributions from Plan Participants					\$0.5	\$0.6	\$0.5	\$0.6
Net Investments (9/30):	\$2,107.8	\$1,717.7	\$1,738.8	\$2,087.9	\$95.8	\$101.9	\$3,942.4	\$3,907.5

B. Investments

Each Fund is invested in non-marketable Treasury securities, as required by law. BPD invests the assets of the pension funds based on investment guidance from the Office. The Office follows a “ladder” approach, scheduling maturities in amounts sufficient to meet the obligations projected by annual actuarial valuations.

C. Benefit Payments

Beginning in June 1999, Treasury funded benefits from the Trust Fund and the Judicial Retirement Fund. In FY 2004, federal benefits were paid to 13,244 retirees and their survivors. In addition, approximately 6,800 active employees who are members of the retirement plans have accrued federal benefits. In FY 2003, federal benefits were paid to 13,381 retirees and their survivors. Approximately 7,200 active employees who are members of the retirement plans had accrued federal benefits. Total federal benefits and refunded employee contributions were \$462 million and \$455 million during FY 2004 and FY 2003, respectively. These payments are expected to be approximately \$475-520 million per year in FY 2005 through FY 2009.

D. Actuarial Valuations

As estimated by the actuarial valuation performed by Deloitte and Touche (Deloitte) as of October 1, 2004, the Federal Government’s total liability for Federal Benefit Payments to the Police Officers’ and Firefighters’, and Teachers’ Retirement Plans is approximately \$8.3 billion. Of the \$8.3 billion actuarial liability, approximately \$3.9 billion is funded by existing assets of the Trust and Supplemental Funds and \$4.4 billion is unfunded.

The FY 2004 actuarial valuation projected a peak in annual Federal Benefit Payments for the Police Officers' and Firefighters', and Teachers' Retirement Plans of approximately \$591 million in year 2022, before beginning a gradual annual decline. Deloitte projected that the assets in the Trust Fund would be depleted in FY 2008, after which the assets in the Supplemental Fund will be used to pay benefits.

For the Judges Retirement Plan, Deloitte determined an actuarial liability as of October 1, 2004, of \$130.5 million. Of the \$130.5 million actuarial liability, approximately \$104.8 million is funded by existing assets of the Judicial Retirement Fund and \$25.7 million is unfunded. As of October 1, 2003, Deloitte determined an actuarial liability of \$128.2 million, of which \$99.1 million was funded by existing assets of the Judicial Retirement Fund and \$29.1 million was unfunded.

Treasury is required to make annual payments from the General Fund of the Treasury to the Judicial Retirement Fund and the Supplemental Fund to amortize the original unfunded liabilities of the retirement programs assumed by the Federal Government over 30 years; the net experience gains or losses over 10 years; and any other changes in actuarial liabilities over 20 years, and amounts necessary to fund covered administrative expenses for the year. The annual payment to the Judicial Retirement Fund also includes an amount necessary to fund the normal cost of the retirement program. Consistent with the Act, these deposits are made in September each year and are invested in non-marketable Treasury securities with maturities consistent with the expected payment dates of the pension liabilities.

As required by the Act, when the Trust Fund is depleted, the Supplemental Fund will take over funding Federal Benefit Payments for retired District police officers, firefighters, and teachers, and their survivors.

E. Administrative Expenses

Treasury must fund all expenses incurred to support the federal responsibilities under the retirement programs since October 1, 1997, the effective date of the Act. Treasury pays expenses from the Trust Fund and the Judicial Retirement Fund, allocated to the Funds in accordance with the benefits derived. For expenses related to activities that benefit all of the retirement programs, expenses are allocated 90% to the Trust Fund and 10% to the Judicial Retirement Fund. When expenses benefit only one group or the other, or when a different allocation is clearly appropriate, expenses are charged accordingly.

The District is responsible for benefits administration until the Secretary selects a trustee or determines that Treasury will assume the trustee's functions. The MOU provides for the continued interim administration of the retirement programs by the District on Treasury's behalf. Treasury reimburses the District for expenses incurred in administering the federal benefits.

In FY 2004, administrative expenses were approximately \$18.7 million for the Trust Fund and \$1.7 million for the Judicial Retirement Fund, for a total of \$20.4 million. In FY 2003, administrative expenses were approximately \$17.7 million for the Trust Fund and \$1.3 million for the Judicial Retirement Fund, for a total of \$19 million. The major administrative expenses of the D.C. Pensions Program were for reimbursement of District administrative expenses, Treasury staff salaries and benefits, and vendors engaged by the Office to provide IT systems development and other support of benefits administration. During FY 2004, Treasury incurred \$1.4 million of reimbursable expenses with the District, compared with \$1.9 million in FY 2003.

Due primarily to an increase in benefits administration contractual costs, administrative expenses in FY 2004 as compared to FY 2003, increased by \$1.4 million.

Certain other costs of the STAR pension/payroll system for hardware, software, and system development were capitalized as equipment and internal use software. The Office has been amortizing -- since January 2003 in the Judicial Retirement Fund, and since September 2003 in the Trust Fund -- direct costs incurred to develop STAR. Capitalized costs in the Trust and Judicial Retirement Funds will be amortized monthly on a five-year schedule.

F. District Reimbursement to the Treasury

Because the District's automated system does not have the capability to calculate split benefit payments, Treasury initially funds all benefit payments under the Police Officers' and Firefighters', and Teachers' Retirement Plans. Pursuant to the MOU, the District reimburses the Trust Fund annually for estimated District Benefit Payments made by Treasury for the prior fiscal year. In January 2004, DCRB reimbursed Treasury \$10.9 million for the estimated District Benefit Payments made in FY 2003 by Treasury on the District's behalf.

In January 2005, DCRB will reimburse Treasury for the estimated District Benefit Payments made by Treasury on the District's behalf during FY 2004. The DCRB actuary determines the reimbursement amount. At this time, based on an actuarial valuation as of October 1, 2004, the Office's actuary estimates the amount of the reimbursement to be \$16.0 million.

This process will be repeated until the STAR system begins to calculate benefit payment splits.

G. Prompt Payment

The Office paid 100% of the invoices received within the timeframes required by the Prompt Payment Act and OMB Circular A-125. Generally, the law requires payment within 30 days from the later of either the receipt of a proper invoice or acceptance of the services. If this timeframe is not met, an interest penalty must be paid to the vendor.

Within Treasury, the standard for the timely payment rate is that no more than 2% of the invoices subject to prompt payment shall be paid late (i.e., at least 98% paid within 30 days). The Office's prompt payment rate exceeds the Treasury standard. The Office's prompt payment performance for FY 2004 is presented below:

1.	Number of Invoices Paid	133
2.	Number of Invoices Paid Late	0
3.	Interest Penalties Paid	0
4.	Percentage of Invoices Paid Late	0

Starting with the July 2003 invoice, the Office's systems integration contractor began offering an early payment discount as an incentive to make payments in less than the 30 days prescribed in the Prompt Payment Act. The discounts are:

- 1% for payment within 10 days of the invoice date
- 1/2% for payment within 20 days of the invoice date

As a result, the Office saved approximately \$45,258 in FY 2004.

H. Electronic Payments

For reasons of reliability and security, Treasury's Fiscal Assistant Secretary and the Financial Management Service encourage federal agencies to use electronic payments. In FY 2004, the Office paid 100% of the 133 vendor payments by electronic funds transfer.

The Office encourages annuitants to receive benefits through direct deposit. By the end of FY 2004, 88% of retired police officers or their survivors, 90% of retired firefighters or their survivors, 91% of retired teachers or their survivors, and 91% of retired judges or their survivors were receiving their monthly benefit payments by direct deposit.

I. 3-Day Close

Since April 2001, the Office has closed its books each month within three working days. The Office has been rated green (the highest rating) since February 2002 for all data quality checks on the monthly data quality score card maintained by Treasury's Office of Accounting and Internal Control.

J. Independent Auditors' Reports on FY 2004 Financial Statements, Controls and Legal Compliance

KPMG LLP (KPMG), an independent public accountant, rendered an unqualified opinion on the Office's FY 2004 financial statements. This is the sixth consecutive year that the Office's financial statements have received an unqualified opinion.

KPMG noted no matters involving the internal control and its operation that are considered to be material weaknesses. Also, the results of the KPMG tests of compliance with laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards or OMB Bulletin No. 01-02.

IV. Statutory Issues

A. Legislative Proposal

Treasury transmitted to the Congress a proposal that the Act be amended to: (1) merge the Trust Fund and the Supplemental Fund; and (2) make the Act's provisions on notice of denial of benefits and the opportunity for review applicable to the Judges' Retirement Plan. Treasury worked closely with the House Committee on Government Reform to produce a draft that would accomplish Treasury objectives. The legislation was introduced as H.R. 4657 by Congressman Tom Davis, and was cosponsored by Congressman Steny H. Hoyer and Congresswoman Eleanor Holmes Norton. The House passed the legislation on September 28, 2004. Treasury is working with Senate staff members to move H.R. 4657 through the legislative process.

B. Legislative Changes to Benefits

1. Longevity

In December 1999 and December 2000, respectively, District and federal statutes were enacted that require retirement benefits for District police officers to include longevity pay in their salary at the time of retirement. Resolution of issues involving the implementation methodology and eligibility for the longevity retirement pay adjustment delayed implementation of the District and federal statutes.

Implementation Methodology

The federal statute provides that Federal Benefit Payments be calculated following the District statute's methodology. Due to the complexity of the District's methodology, data collection and calculations could have taken from six months to one year to accomplish. To shorten this time frame, the Association of Retired Police Officers (AORP) sought new District and federal legislation that would authorize Treasury to implement a simplified methodology. District legislation was enacted on October 19, 2002, and federal legislation was enacted on November 7, 2002.

In FY 2003, Treasury began implementing the federal legislation for the pre-97 retirees. At the end of FY 2003, approximately 1,300 annuitants had received the increase. In FY 2004, 65 additional annuitants received an increase to their monthly benefit. As a result of the FY 2003 and FY 2004 adjustments, a total of approximately \$11 million in retroactive payments have been made. In FY 2005, approximately 35 beneficiaries of deceased eligible annuitants will receive retroactive payments totaling approximately \$.1 million

Eligibility

Implementation for annuitants who retired after June 30, 1997, was further delayed as a result of different District and federal eligibility requirements. On January 6, 2003, the “Police and Firemen’s Longevity Amendment Act of 2003,” a bill to conform the eligibility requirements, was introduced to the Council of the District of Columbia. The bill was passed, subject to budget funding, by the Council on January 6, 2004. The bill became DC Law 15-125, enacted on March 13, 2004. DC Law 15-125 was effective as of June 22, 2004.

Once the eligibility legislation was passed, the Office began calculating Federal and District Benefit Payments for approximately 390 annuitants who retired after June 30, 1997. The first phase of work began on March 1, 2004, and included annuitants who retired before January 1, 2002. During FY 2004, approximately 270 annuitants in this group received an increase to their monthly benefit and a total of approximately \$5.1 million in retroactive payments. There are approximately 60 annuitants remaining in this group who are due approximately \$0.8 million in retroactive payments. The second, and final phase, includes approximately 120 annuitants who retired after December 31, 2001, and are owed approximately \$0.8 million in retroactive payments. The remaining group in the first phase and all of the annuitants in the final phase are scheduled for completion in the second quarter of FY 2005.

2. Post-1956 Military Service

As noted in Section II.E.2., above, on November 22, 2003, a law became effective that permits Police Officers’ and Firefighters’ Retirement Plan members to purchase eligible post-1956 military service in order to avoid any reduction in their retirement annuities. Treasury has been working with the District to notify the annuitants of this new legislation and to process their requests to purchase their eligible military service. Plan members may purchase service without interest before the later of October 1, 2006, or two years after they become a member of the Plan.

V. Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of the 31 U.S.C. 3515(b).

While the statements have been prepared from the books and records of the entity in accordance with Generally Accepted Accounting Principles (GAAP) for federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.



INDEPENDENT AUDITORS' REPORTS



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Financial Statements

The Inspector General, U.S. Department of the Treasury, and
Director, Office of D.C. Pensions:

We have audited the consolidated balance sheets of the U.S. Department of the Treasury's Office of D.C. Pensions (ODCP) as of September 30, 2004 and 2003, and the related consolidated statements of net cost, changes in net position and financing, and combined statements of budgetary resources for the years then ended. These financial statements are the responsibility of ODCP's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Treasury's Office of D.C. Pensions as of September 30, 2004 and 2003, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management Discussion and Analysis and the Supplemental Information Consolidating Intra-governmental Balances is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The consolidating balance sheets, consolidating statements of net cost, consolidating statements of changes in net position, combining statements budgetary resources and consolidating statements of financing are presented for purposes of additional analysis of the financial statements rather than to present the financial position, net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations of ODCP's pension funds individually. The Supplemental Information-Consolidating Intra-governmental Balances, Investments in GAS Securities-Net by Fund, Investments in GAS Securities-Net by Fund and Maturity, Administrative Expenses-by Fund, and Pension Expense-by Fund, are also presented for purposes of additional analysis of the financial statements. This information



has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued reports dated November 5, 2004, on our consideration of ODCP's internal control over financial reporting and its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

November 5, 2004



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Internal Control Over Financial Reporting

The Inspector General, U.S. Department of the Treasury, and
Director, Office of D.C. Pensions:

We have audited the consolidated balance sheets of the U.S. Department of the Treasury's Office of D.C. Pensions (ODCP) as of September 30, 2004 and 2003, and the related consolidated statements of net cost, changes in net position and financing, and combined statements of budgetary resources for the years then ended, and have issued our report thereon dated November 5, 2004. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our fiscal year 2004 audit, we considered ODCP's internal control over financial reporting by obtaining an understanding of ODCP's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on ODCP's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Material weaknesses are conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.



Additional Required Procedures

As further required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in ODCP's Management Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

This report is intended solely for the information and use of ODCP's management, the U.S. Department of Treasury Office of Inspector General, OMB, the Government Accountability Office, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 5, 2004



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Compliance with Laws and Regulations and Other Matters

The Inspector General, U.S. Department of the Treasury, and
Director, Office of D.C. Pensions:

We have audited the consolidated balance sheets of the U.S. Department of the Treasury's Office of D.C. Pensions (ODCP) as of September 30, 2004 and 2003, and the related statements of net cost, changes in net position, budgetary resources and financing, and combined statements of budgetary resources for the years then ended, and have issued our report thereon dated November 5, 2004. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of ODCP is responsible for complying with laws, regulations and contracts applicable to ODCP. As part of obtaining reasonable assurance about whether ODCP's fiscal year 2004 financial statements are free of material misstatement, we performed tests of ODCP's compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain requirements referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA). We limited our tests of compliance to the provisions described in the preceding sentence and we did not test compliance with all laws, regulations and contracts applicable to ODCP. However, providing an opinion on compliance with laws, regulations and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests of compliance described in the preceding paragraph of this report, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 01-02.

Under FFMIA, we are required to report whether ODCP's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

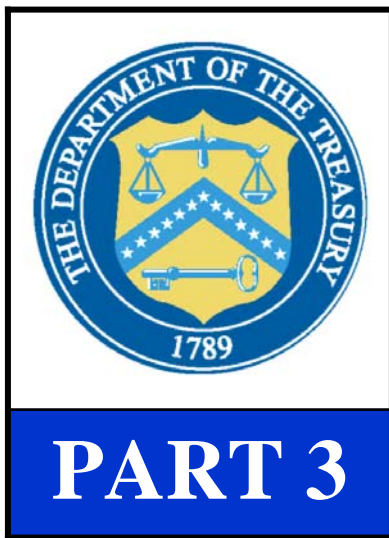
The results of our tests disclosed no instances in which ODCP's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.



This report is intended solely for the information and use of ODCP's management, the U.S. Department of the Treasury Office of Inspector General, OMB, the Government Accountability Office, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 5, 2004



FINANCIAL STATEMENTS AND NOTES

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Balance Sheets
As of September 30, 2004 and September 30, 2003
(in thousands)

	2,004	2003
Assets		
Entity Assets		
Intra-Governmental Assets		
Fund Balance with Treasury (Note 3)	\$ 251	\$ 274
Investments in GAS Securities, Net (Note 4)	3,907,511	3,942,397
Interest Receivable from GAS Securities	51,943	54,109
Advances to Others	34	-
Software-In-Development	891	-
ADP Software, Net (Note 5)	17,732	23,627
Equipment, Net (Note 6)	318	230
Accounts Receivable	16,023	8,513
Total Assets	<u>\$ 3,994,703</u>	<u>\$ 4,029,150</u>
Liabilities		
Liabilities Covered By Budgetary Resources		
Intra-Governmental		
Accounts Payable	\$ 54	\$ 53
Accrued Payroll & Benefits	14	9
Accounts Payable	4,809	19,956
Accrued Pension Benefits Payable	42,509	39,599
Actuarial Pension Liability	3,947,017	3,969,270
Accrued Payroll & Benefits	300	263
Total Liabilities Covered By Budgetary Resources	<u>3,994,703</u>	<u>4,029,150</u>
Liabilities Not Covered By Budgetary Resources		
Actuarial Pension Liability	<u>4,420,274</u>	<u>4,335,231</u>
Total Liabilities	<u>8,414,977</u>	<u>8,364,381</u>
Net Position:		
Cumulative Results of Operations	<u>(4,420,274)</u>	<u>(4,335,231)</u>
Total Net Position	<u>(4,420,274)</u>	<u>(4,335,231)</u>
Total Liabilities & Net Position	<u>\$ 3,994,703</u>	<u>\$ 4,029,150</u>

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Statements of Net Cost
For the Years Ended September 30, 2004 and 2003
(in thousands)

	2,004	2003
Program Costs		
Intra-Governmental		
Administrative Expenses (Note 7)	\$ 4,050	\$ 3,841
Pension Expense (Note 8)	522,492	422,325
Administrative Expenses (Note 7)	16,317	15,185
Total Program Costs	<u>542,859</u>	<u>441,351</u>
Less: Earned Revenues		
Interest Earned from GAS Securities	179,624	195,544
Employee Contributions	552	522
Net Cost of Operations	<u><u>\$ 362,683</u></u>	<u><u>\$ 245,285</u></u>

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2004 and 2003
(in thousands)

	2,004	2003
Net Position - Beginning of Year	\$ (4,335,231)	\$ (4,366,002)
Financing Sources (Other Than Exchange Revenue)		
Appropriations Used	277,500	275,900
Additional Proceeds from DC Asset Liquidation	-	1
Imputed Financing Sources	140	155
Total Financing Sources	<u>277,640</u>	<u>276,056</u>
Net Cost of Operations	(362,683)	(245,285)
Net Position - End of Year	<u><u>\$ (4,420,274)</u></u>	<u><u>\$ (4,335,231)</u></u>

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2004 and 2003
(in thousands)

	2,004	2003
Budgetary Resources		
Budget Authority		
	\$ 728,371	\$ 713,066
Unobligated Balance - Beginning of Year	2,082,746	2,430,025
Spending Authority from Offsetting Collections	11,223	6,818
Temporarily Unavailable Pursuant to Public Law	(321,904)	(297,339)
Total Budgetary Resources	<u>\$ 2,500,436</u>	<u>\$ 2,852,570</u>
Status of Budgetary Resources		
Obligations Incurred	\$ 770,499	\$ 769,824
Unobligated Balances Available	1,729,937	2,082,746
Total Status of Budgetary Resources	<u>\$ 2,500,436</u>	<u>\$ 2,852,570</u>
Relationship of Obligations to Outlays		
Obligated Balance, Net - Beginning of Year	\$ 68,178	\$ 70,098
Obligations Incurred	770,499	769,824
Obligated Balance, Net - End of Year	(55,207)	(68,178)
Outlays		
Disbursements	783,470	771,744
Collections	(11,223)	(6,818)
Total Outlays	<u>772,247</u>	<u>764,926</u>
Less: Offsetting Receipts	<u>180,176</u>	<u>196,067</u>
Net Outlays	<u>\$ 592,071</u>	<u>\$ 568,859</u>

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Statements of Financing
For the Years Ended September 30, 2004 and 2003
(in thousands)

	2,004	2,003
Budgetary Resources Obligated		
Obligations Incurred	\$ 770,499	\$ 769,824
Less: Spending Authority from Offsetting Collections and Adjustments	11,223	6,818
Obligations Net of Offsetting Collections and Recoveries	759,276	763,006
Less: Offsetting Receipts	180,176	196,067
Net Obligations	579,100	566,939
Imputed Financing from Costs Absorbed by Others	140	155
Total Resources Used to Finance Activities	579,240	567,094
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	(742)	1,925
Resources That Fund Expenses Recognized in Prior Periods	7,504	52,512
Budgetary Offsetting Collect & Receipts that don't Affect Net Cost of Operations	-	(1)
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	142	4,015
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	277,500	275,900
Total Resources used to Finance Items not part of the Net Cost of Operations	284,404	334,351
Total Resources Used to Finance Net Cost of Operations	294,836	232,743
Components Requiring or Generating Resources in Future Periods		
Future Funded Expenses	62,790	9,873
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	62,790	9,873
Components not Requiring or Generating Resources		
Depreciation and Amortization	5,057	2,669
Total Components of Net Cost Operations that will not Require or Generate Resources in Future Periods	5,057	2,669
Total Components of Net Cost Operations that will not Require or Generate Resources in Current Periods	67,847	12,542
Net Cost of Operations	<u>\$ 362,683</u>	<u>\$ 245,285</u>

OFFICE OF D.C. PENSIONS

Office of the Assistant Secretary for Management
and Chief Financial Officer
Departmental Offices, U.S. Department of the Treasury

Notes to Financial Statements

September 30, 2004 and 2003

(1) Reporting Entity

The Balanced Budget Act of 1997, as amended (the Act), provides that the Secretary of the Treasury (the Secretary) assume certain responsibilities for the District of Columbia (D.C.) pension system, including administration of fund assets and making Federal pension benefit payments. The Department of the Treasury's (Treasury) Office of D.C. Pensions, within the Departmental Offices, administers the Secretary's responsibilities under the Act. This is accomplished through a matrix management arrangement that includes a core office supported by other Treasury offices that provide expertise in the range of program areas encompassed by the Act. The Office of D.C. Pensions (the Office) is responsible for investments, benefits administration, actuarial valuations, information systems, and financial reporting. Treasury's Office of the General Counsel provides legal analysis; Treasury's Office of Procurement provides procurement services; and Treasury's Office of Human Resources Operations provides human resource services.

To varying degrees the Secretary is responsible for making benefit payments for three D.C. retirement plans:

- Police Officers' and Firefighters' Retirement Plan
- Teachers' Retirement Plan
- Judges' Retirement Plan

For the Police Officers' and Firefighters', and Teachers' Retirement Plans, the Secretary is responsible for paying benefits earned by plan participants through June 30, 1997. The D.C. Government is responsible for paying benefits earned after June 30, 1997. For the Judges' Retirement Plan, the Secretary is responsible for payments of all benefits earned.

(a) *District of Columbia Federal Pension Liability Trust Fund*

Pursuant to the Act, Treasury established the District of Columbia Federal Pension Liability Trust Fund (the Trust Fund – 20X8230). The Trust Fund is used for the accumulation of funds to finance obligations of the Federal Government for benefits and necessary administrative expenses for the Police Officers' and Firefighters', and Teachers' Retirement Plans under the provisions of the Act. The Trust Fund consists of the following:

- Amounts deposited from the proceeds of assets transferred to Treasury from the D.C. Retirement Board pursuant to the Act;

- Income earned on the investments held in the Trust Fund; and
- Reimbursement and receivables from the D.C. Government for the District's estimated share of benefits paid from the Trust Fund for Fiscal Years (FY) 1998-2004.

The portion of the Trust Fund that is not needed to meet the level of current benefit payments, refunds, and administrative expenses is invested in non-marketable Government Account Series (GAS) securities issued by the Treasury's Bureau of Public Debt (BPD). Investments are made in securities with maturities suitable to the needs of the Trust Fund.

(b) *Federal Supplemental District of Columbia Pension Fund*

Pursuant to the Act, Treasury established the Federal Supplemental District of Columbia Pension Fund (the Supplemental Fund – 20X5500). The Supplemental Fund is used for the accumulation of funds to finance obligations of the Federal Government for benefits and necessary administrative expenses for the Police Officers' and Firefighters', and Teachers' Retirement Plans. Funds held in the Supplemental Fund are not available for use until such time as the funds held in the Trust Fund have been depleted. No later than 18 months before the projected depletion of the available assets of the Trust Fund, the Secretary shall determine the manner in which the Supplemental Fund will be used to fund future benefits and administrative expenses.

The Supplemental Fund consists of the following:

- Amounts deposited from the General Fund of the Treasury; and
- Income earned on the investments held in the Supplemental Fund.

The funds held in the Supplemental Fund are invested in GAS securities with maturities suitable to the needs of the Supplemental Fund.

By the end of each applicable fiscal year, the Act requires the Secretary to pay into the Supplemental Fund (from the General Fund of the Treasury) an amount equal to the annual amortization amount and the covered administrative expenses for the year. The annual amortization amount, as determined by an enrolled actuary, is the amount necessary to amortize in equal annual installments the original unfunded liability over 30 years, the net experience gain or loss over 10 years and any other changes in actuarial liability over 20 years. The amount paid into the Supplemental Fund during FY 2004 and 2003 was \$270.0 million and \$269.2 million, respectively.

(c) *District of Columbia Judicial Retirement and Survivors Annuity Fund*

Pursuant to the Act, Treasury established the District of Columbia Judicial Retirement and Survivors Annuity Fund (Judicial Retirement Fund – 20X8212).

The Judicial Retirement Fund is used for the accumulation of funds to finance obligations of the Federal Government for benefits and necessary administrative expenses of the Judges' plan under the provisions of the Act.

The Judicial Retirement Fund consists of the following:

- Amounts deposited from the proceeds of assets transferred to Treasury from the D.C. Retirement Board pursuant to the Act;
- Amounts deposited from the General Fund of the Treasury;
- Income earned on the investments held in the Judicial Retirement Fund; and
- Employee contributions to the Judicial Retirement Fund.

The portion of the Fund that is not needed to meet the level of current benefit payments, refunds and administrative expenses is invested in GAS securities. Investments are made in securities with maturities suitable to the needs of the Judicial Retirement Fund.

By the end of each fiscal year, the Act requires the Secretary to pay into the Judicial Retirement Fund (from the General Fund of the Treasury) an amount equal to the normal cost for the year, an annual amortization amount and the covered administrative expenses for the year. The annual amortization amount, as determined by an enrolled actuary, is the amount necessary to amortize the original unfunded liability over 30 years, the net experience gain or loss over 10 years and any other changes in actuarial liability over 20 years. The annual payment to the Judicial Retirement Fund also includes an amount necessary to fund the normal cost of the retirement program not covered by employee contributions. The amount paid into the Judicial Retirement Fund during FY 2004 and 2003 was approximately \$7.5 million and \$6.7 million, respectively.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting and Presentation

The Office's financial statements consist of the Consolidated Balance Sheets, the Consolidated Statements of Net Cost and Changes in Net Position, the Combined Statements of Budgetary Resources and the Consolidated Statements of Financing, all of which are prescribed by Office of Management and Budget (OMB) Bulletins. The financial statements have been prepared from the accounting records of the Office in conformity with accounting principles generally accepted in the United States of America (GAAP) and the Form and Content of Agency Financial Statements specified in OMB Bulletin No. 01-09. GAAP for federal entities is prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is designated the official accounting standards setting body of the Federal Government by the American Institute of Certified Public Accountants. The statements are different

from the financial reports, also prepared by the Office, pursuant to OMB directives that are used to monitor and control the Office's use of budgetary resources.

(b) *Fund Balance with Treasury*

Fund balance with Treasury represents appropriated funds remaining as of fiscal year-end from which the Office is authorized to make expenditures and pay liabilities resulting from operational activity, except as restricted by law.

(c) *Investments*

Pursuant to the Act and Section 130 of Division A of Public Law 105-277 (1998), the Secretary invests the portions of the Trust, Supplemental, and Judicial Retirement Funds (Retirement Funds) that are not necessary to meet current obligations, in market-based (MK) GAS securities — non-marketable Treasury securities that mirror the prices of marketable securities with similar terms, issued and redeemed by BPD. Amounts needed to meet current obligations are invested in overnight non-marketable par value GAS securities, redeemed at face value plus accrued interest.

The Office follows Treasury investment policy guidelines and determines whether the investments should be made in MK bills, MK notes, or MK bonds. The maturities on investments range from less than one year to approximately 10 years. If amounts held in cash, overnight securities and maturing securities are inadequate to meet required outlays, investments would be selected for redemption based on a review of the advantages of each of the alternatives and an assessment of the appropriateness of the securities in the portfolio under current investment policy. Investments are valued at cost, adjusted for unamortized premiums and discounts, if applicable. The premiums and discounts are recognized as adjustments to interest income, utilizing the effective interest method.

(d) *Advances and Prepayments*

The carrying amount of advances and prepayments to the Department of Treasury's Working Capital Fund approximate fair value as they represent the amounts expected to be paid.

(e) *Software-In-Development*

Software-in-development consists of independent contractor costs incurred in FY 2004 to develop Release 3 of a pension/payroll system to support the Police Officers' and Firefighters', and Teachers' Retirement Plans.

(f) *ADP Software – Net*

ADP software – net represents the pension benefit and payroll software purchased and independent contractor costs incurred in FY 2000 - 2003 to develop Release 1 and 2 of a pension/payroll system to meet Treasury's and D.C.'s needs (net of accumulated amortization). This software was transferred from Software-in-development and placed in service during FY 2003. During FY 2004, the Office received a partial refund of capitalized costs incurred in FY 2002 and 2003, which

resulted in a decrease in the asset balance. Internal use software is recorded at cost and capitalized in accordance with the following thresholds:

- Capitalize software acquisitions that exceed \$50,000;
- Capitalize bulk purchases (a single purchase of like items in the same lot with a unit cost greater than \$5,000 and less than \$50,000) that exceed \$500,000; and
- Capitalize aggregate purchases (multiple purchases of items directly related to a specific project and unit cost is less than \$50,000) that exceed \$500,000.

Software is amortized using the straight-line method over an estimated useful life of five years, with six months amortization taken in the first and last year.

(g) *Equipment - Net*

Equipment – net represents computer hardware purchases (net of accumulated depreciation) placed in service and used to run ADP Software and operation of the pension/payroll system. Equipment is recorded at cost and capitalized in accordance with the following thresholds:

- Capitalize equipment acquisitions that exceed \$50,000;
- Capitalize bulk purchases (a single purchase of like items in the same lot with a unit cost greater than \$5,000 and less than \$50,000) that exceed \$500,000; and
- Capitalize aggregate purchases (multiple purchases of items directly related to a specific project and unit cost is less than \$50,000) that exceed \$500,000.

Equipment is depreciated using the straight-line method over an estimated useful life of five years, with six months depreciation taken in the first and last year.

(h) *Accounts Receivable*

Accounts receivable consist of amounts receivable from the D.C. Government for the District's estimated share of benefits paid by the Office during FY 2004 and 2003 respectively, employee retirement contributions withheld from judges' salaries not yet transferred from the General Services Administration to the Judicial Retirement Fund before the end of each fiscal year, and amounts due from annuitants and survivors as the result of benefit overpayments.

(i) *Accrued Pension Benefits Payable*

Accrued pension benefits payable pertains, for the most part, to retirement benefits to which the recipients became entitled during the reporting period, but which, by law, are paid on the first business day of the subsequent period. Included in this accrual are amounts for refund claims for which processing was not completed during the reporting period, but will be paid in the subsequent period.

(j) *Actuarial Pension Liability*

The actuarial cost method used to determine costs for the Police Officers' and Firefighters' Retirement Plan, Teachers' Retirement Plan, and Judges' Retirement Plan is the Aggregate Entry Age Normal Cost Method. Under this funding method, the normal cost is a level percent of covered salary, which, along with the member contributions (under the Judges' Plan only), will pay for projected benefits at retirement for the active plan participants. The level percent developed is called the normal cost rate and the product of that rate and payroll is the normal cost.

The actuarial accrued liability is that portion of the present value of projected benefits that will not be paid by future normal costs or member contributions. The difference between this liability and the funds accumulated at the same date is referred to as the unfunded actuarial accrued liability.

The actuarial accrued liability is based upon assumptions made by Treasury. The assumptions used in FY 2004 were an annual rate of investment return of 6.0% based on the securities held, an annual inflation and cost-of-living adjustment of 3.0%, and salary increases at an annual rate of 3.5% for judges, 5.5% for teachers, and 6.5% for police officers and firefighters. In FY 2003, the salary assumption was 4.0% for members of all plans. The salary assumptions were changed for FY 2004 as the result of an experience study of salary and demographic assumptions conducted in FY 2004.

(k) *Appropriations Received and Used*

Treasury is required to make annual payments from the General Fund of the Treasury to the Judicial Retirement Fund and the Supplemental Fund to amortize the original unfunded liabilities assumed by the Federal Government over a period of time and to fund the normal cost of the Judicial Retirement Fund. The appropriations are received into the Office's appropriation funds and are paid out to the Judicial Retirement Fund and the Supplemental Fund to be invested in non-marketable Treasury securities. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 7, the payment from the Office's appropriation funds results in an appropriation used, as reported in the accompanying consolidated statements of changes in net position. Appropriations received and used for the years ended September 30, 2004 and 2003 were \$277.5 million and \$275.9 million, respectively.

(l) *Employee Retirement Plans*

The Trust and Judicial Retirement Funds pay salaries and benefits of Treasury employees who work on the D.C. Pensions Program as reasonable and necessary expenses incurred by the Secretary in carrying out his responsibilities under the Act. These salaries and benefits are split 90% and 10% between the Trust and the Judicial Retirement Funds, respectively.

The Office's employees participate in the Civil Service Retirement System (CSRS) or the Federal Employee's Retirement System (FERS). FERS was established by Public

Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired before January 1, 1984, elected to join either FERS or remain in CSRS.

Most employees are eligible to contribute to the Thrift Savings Plan (TSP). For employees participating in FERS, TSP accounts are automatically established and the Trust and the Judicial Retirement Funds make mandatory contributions of one percent of the Treasury employees' base pay to the accounts. In addition, the Funds make matching contributions, ranging from 1% to 4% of base pay, for FERS eligible employees who contribute to their TSP accounts. Pursuant to law, mandatory and matching contributions are not made to the TSP accounts established for CSRS employees.

FERS employees and certain CSRS reinstatement employees participate in the Social Security program. The Trust and Judicial Retirement Funds remit the employer's share of the required contributions for eligible employees.

The Trust and Judicial Retirement Funds do not report information pertaining to the CSRS and FERS retirement plans covering Treasury employees. The U.S. Office of Personnel Management is responsible for reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any.

(m) *President's Budget*

The FY 2006 Budget of the United States (also known as the President's Budget for FY 2006), with actual numbers for FY 2004, was not published at the time that these financial statements were issued. The President's Budget for FY 2006, which includes the Office's budget within the Other Independent Agencies' budget appendix, is expected to be published in January or February 2005. It will be available from the United States Government Printing Office. The FY 2003 Statement of Budgetary Resources (SBR) was reconciled to the Program and Financing (P & F) Schedules within the President's Budget for FY 2005 and there were no differences for budgetary resources and status of budgetary resources. The reconciliation of net outlays did result in a difference. The reason for this difference is that the SBR includes offsetting receipts in the net outlay calculation, whereas the President's Budget does not include offsetting receipts in the net outlay calculation.

Earnings on investments in US securities, federal (as reported in the annual President's Budget) consists of interest *collected* from GAS securities less premiums and interest purchased. Interest Earned from GAS securities (as reported in the financial statements) consists of interest *earned* from GAS securities and the amortization of premiums and discounts.

(3) Fund Balance with Treasury

Fund balance with Treasury and the status of Fund balance with Treasury as of September 30, 2004 and 2003, consisted of the following (in thousands):

	<u>2004</u>	<u>2003</u>
Fund balances:		
Trust funds	\$ 251	273
Special funds	<u>—</u>	<u>1</u>
Total fund balance with Treasury	<u>\$ 251</u>	<u>274</u>

	<u>2004</u>	<u>2003</u>
Status of fund balance with Treasury		
Unobligated balance		
unavailable	\$ —	1
Obligated balance not yet disbursed	<u>251</u>	<u>273</u>
Total	<u>\$ 251</u>	<u>274</u>

(4) Investments in GAS Securities - Net

Investments in GAS securities – net as of September 30, 2004 and 2003, consisted of the following (in thousands):

		<u>2004</u>		
		<u>Cost</u>	<u>Unamortized Premium, Net</u>	<u>Investments Net</u>
				<u>Market Value</u>
Intragovernmental Securities				
Non-marketable par value	\$	193,675	—	193,675
Non-marketable market-based		<u>3,567,861</u>	<u>145,975</u>	<u>3,713,836</u>
Total	\$	<u>3,761,536</u>	<u>145,975</u>	<u>3,907,511</u>
				<u>4,036,124</u>

		2003			
		Cost	Unamortized Premium, Net	Investments Net	Market Value
Intragovernmental Securities					
Non-marketable par value	\$	209,935	—	209,935	209,935
Non-marketable market-based		<u>3,603,517</u>	<u>128,945</u>	<u>3,732,462</u>	<u>3,991,236</u>
Total	\$	<u><u>3,813,452</u></u>	<u><u>128,945</u></u>	<u><u>3,942,397</u></u>	<u><u>4,201,171</u></u>

The amortization method utilized by the D.C. Pensions Funds is the effective interest method. The market value for notes and bonds is calculated using rates for September 30, 2004 and 2003, as published in the Treasury Quote Sheets prepared by Treasury's Office of Market Finance. Included in this figure are net unrealized gains of \$128.6 million and \$258.8 million as of September 30, 2004 and 2003, respectively.

The amortized cost of non-marketable market-based GAS securities as of September 30, 2004 and 2003, by maturity date, are as follows (in thousands):

	2004	2003
Less than or equal to 1 year	\$ 534,765	517,740
More than 1 year and less than or equal to 5 years	2,581,759	2,209,018
More than 5 years and less than or equal to 10 years	<u>597,312</u>	<u>1,005,704</u>
Total	<u><u>\$ 3,713,836</u></u>	<u><u>3,732,462</u></u>

(5) ADP Software – Net

The components of ADP software – net as of September 30, 2004 and 2003, are as follows (in thousands):

	2004	2003
ADP software	\$ 25,332	26,252
Accumulated depreciation	<u>(7,600)</u>	<u>(2,625)</u>
ADP software – net	<u><u>\$ 17,732</u></u>	<u><u>23,627</u></u>

(6) Equipment - Net

The components of equipment – net as of September 30, 2004 and 2003, are as follows (in thousands):

	2004	2003
ADP hardware	\$ 500	330
Accumulated depreciation	(182)	(100)
Equipment – net	<u>\$ 318</u>	<u>230</u>

(7) Administrative Expenses

Administrative expenses for the years ended September 30, 2004 and 2003, are as follows (in thousands):

	2004	2003
Salaries and related benefits	\$ 2,542	2,605
Contractual services	11,822	12,676
Rent	701	673
Noncapitalized equipment/software	5,283	3,016
Other	19	56
Total administrative expenses	<u>\$ 20,367</u>	<u>19,026</u>

Included in the above expenses are amounts incurred by the Trust and Judicial Retirement Funds for intragovernmental activity totaling \$3,586 thousand and \$464 thousand, respectively, for 2004, and \$3,414 thousand and \$427 thousand, respectively, for 2003.

(8) Pension Expense

Pension expense for the plan years ended September 30, 2004, and 2003, includes the following components (in thousands):

	2004	2003
Normal cost	\$ 4,100	4,000
Actuarial (gain)/loss during the period	37,203	(76,279)
Interest on pension liability during the period	486,600	489,200
Judges refund payments	—	86
Longevity pay adjustment	(5,411)	5,318
Total pension expense	<u>\$ 522,492</u>	<u>422,325</u>

Federal pension benefits paid during the plan years were \$456 million and \$6.0 million from the Trust and Judicial Retirement Funds, respectively, for 2004, and \$449 million and \$5.7 million, respectively, for 2003. For 2004, approximately \$5.4 million represents contribution refunds to plan participants of the Trust Fund. For 2003, approximately \$3.9 million and \$0.1 million represents contribution refunds to plan participants of the Trust and Judicial Retirement Fund's, respectively.

(9) Plan Administration and Description

(a) *Police Officers' and Firefighters' Retirement Plan*

Eligibility

A participant becomes a member when he or she starts work as a police officer or firefighter in the District of Columbia. Police cadets are not eligible to join the Plan. A participant's contribution equals 7% (or 8% for employees hired on or after November 10, 1996) of basic pay. Employee contributions are made according to the plan adopted by the District of Columbia on September 18, 1998. However, the Trust Fund does not receive any employee or employer contributions because pension liability for all service accruing on or after July 1, 1997, is the exclusive responsibility of the District of Columbia.

Members (not survivors) who retired prior to February 15, 1980, receive the same percentage increase in annuities as active employees' salary increases. Members who retired on or after February 15, 1980 and all survivors receive an increase each March based on the annual change in the Consumer Price Index for All Urban Consumers (all items – U.S. City Average) from December to December.

Members Hired Before February 15, 1980

Members are eligible for optional retirement with full benefits at any age with 20 years of departmental service. The annual basic retirement benefit equals 2.5% of average pay (basic pay for the highest 12 consecutive months) times years of departmental service up to 20 years, plus 3% of average pay times years of departmental service over 20 years, plus 2.5% of average pay times credited years of service, subject to a maximum benefit of 80% of final pay. Members terminated after five years of police or fire service are entitled to a deferred benefit beginning at age 55 if they do not receive a refund of contributions.

Members with service-related disabilities receive an annuity equal to 2.5% of average pay times total years of service, subject to a minimum benefit of 66.67% of average pay and subject to a maximum benefit of 70% of average pay.

Other members with non-service related disabilities with more than five years of departmental service receive an annuity equal to 2% of average pay times total years of service, subject to a minimum benefit of 40% of average pay and subject to a maximum benefit of 70% of average pay.

Members Hired After February 15, 1980, and Before November 10, 1996

Members are eligible for optional retirement with full benefits at age 50 with at least 25 years of departmental service. The annual basic retirement benefit equals 2.5% of average pay (basic pay for the highest 36 consecutive months) times years of departmental service up to 25 years, plus 3% of average pay times years of departmental service over 25 years, plus 2.5% of average pay times credited years of service, subject to a maximum benefit of 80% of final pay. Members terminated after five years of police or fire service are entitled to a deferred pension beginning at age 55 if they do not receive a refund of contributions. Members with service related disabilities receive 70% of base pay times percentage of disability, subject to a minimum benefit of 40% of base pay. Other members with non-service related disabilities with more than five years of departmental service receive 70% of base pay times percentage of disability, subject to a minimum benefit of 30% of base pay.

Members Hired on or After November 10, 1996

Members are eligible for retirement with 25 years of departmental service. The annual basic retirement benefit equals 2.5% of average pay (basic pay for the highest 36 consecutive months) times years of departmental and credited service, subject to a maximum benefit of 80% of basic pay.

Members with service related disabilities receive 70% of base pay times percentage of disability, subject to a minimum benefit of 40% of base pay.

Other members with non-service related disabilities with more than five years of departmental service receive 70% of base pay times percentage of disability, subject to a minimum benefit of 30% of base pay.

Participant Data

For the September 30, 2004, and 2003, actuarial valuations, the participants are as follows:

	2004	2003
Active members	3,509	3,663
Retirees and beneficiaries	7,673	7,792
Vested terminated members	—	—
Total	11,182	11,455

Longevity Pay Adjustment for Police Officers

As required by District law enacted in 1972, active D.C. police officers receive increases in salary reflecting longevity pay adjustments based on length of departmental service. Until recently, District law specifically excluded the longevity pay adjustment in calculating retirement benefits for annuitants (retirees and survivors). District and federal statutes were enacted in December 1999 and December 2000, respectively, requiring the calculation of retirement benefits to

include longevity pay in the salary at the time of retirement. The federal statute applies to Federal payments made after December 15, 2000, to annuitants who retired on or after August 29, 1972. Therefore, implementation of the federal statute required recalculation of initial benefits going back 30 years in some cases. Resolution of issues involving the calculation methodology and eligibility for the longevity retirement pay adjustment delayed implementation of the District and federal statutes.

Implementation Methodology

The federal statute provides that Federal Benefit Payments be calculated following the District's methodology. Under this methodology, data collection and calculations could have taken from six months to one year to accomplish. To shorten this time frame, the Association of Retired Police Officers (AORP) sought District and federal legislation that would authorize Treasury to implement a simplified methodology. The District legislation was enacted on October 19, 2002, and the federal legislation was enacted on November 7, 2002. Treasury implemented the federal legislation for the pre-97 retirees. By the end of FY 2004, 1,375 annuitants in this group had received increased monthly benefits plus a total of approximately \$11 million in retroactive payments. In FY 2005 approximately 35 beneficiaries of deceased eligible annuitants will receive retroactive payments totaling approximately \$.1 million.

Eligibility

Implementation for annuitants who retired after June 30, 1997, was further delayed as a result of different District and federal eligibility requirements. On January 6, 2003, the "Police and Firemen's Longevity Amendment Act of 2003," a bill to conform the eligibility requirements, was introduced to the Council of the District of Columbia. The bill was passed, subject to budget funding, by the Council on January 6, 2004. The bill became DC Law 15-125, enacted on March 13, 2004. DC Law 15-125 was effective as of June 22, 2004.

Once the eligibility legislation was passed, the Office began to calculate Federal and District Benefit Payments for annuitants who retired after June 30, 1997. By the end of FY 2004, approximately 270 annuitants in this group had received increased monthly benefit payments plus a total of approximately \$5.1 million in retroactive payments. Treasury estimates that remaining annuitants are owed approximately \$1.6 million in retroactive Federal Benefit Payments. During FY 2005, the Office expects to complete this process for all eligible annuitants.

Application of Statutory Military Service Provision (Police Officers and Firefighters)

By District law, determination of retirement benefits for District police officers and firefighters may include credit for military service performed after 1956. However, if the retiree is also eligible for Social Security retirement or disability benefits based upon his or her wages and self-employment income, the retirement benefit from the

District Retirement Plan must be recalculated to remove the portion of the benefit derived from the military service. Recalculation must occur when the retiree reaches the age to begin receiving full Social Security benefits (65+, depending on date of birth). Prior to FY 2003, the District had not performed the necessary recalculations.

In FY 2003, the District reduced the benefits of 237 annuitants. In FY 2004, the District reduced the benefits of an additional 42 annuitants. Public Law No. 108-133 enacted on November 22, 2003, permits D.C. Police Officers' and Firefighters' Retirement Plan members and former members to purchase eligible post-1956 military service for credit in calculating their Plan retirement benefit. Pursuant to Public Law 108-133, approximately 230 of the above annuitants have purchased their post-1956 military service, and annuities have been recalculated to include this service. The District has contacted the remaining affected annuitants, as well as annuitants who may be affected in early FY 2005, and their purchase requests are being processed as they are received.

The District plans to contact all remaining annuitants and all active employee members under the D.C. Police Officers' and Firefighters' Retirement Plan to explain their rights to purchase any post-1956 military service under the law enacted in November 2003. Plan members may purchase service without interest before the later of October 1, 2006, or two years after they become a member of the Plan.

(b) *Teachers' Retirement Plan*

Eligibility

Permanent, temporary, and probationary teachers and certain other employees of the D.C. Public Schools become members automatically on their date of employment. The basic retirement contribution equals 7% (or 8% for teachers hired on or after November 16, 1996) of a participant's annual pay minus any pay received for summer school. Employee contributions are made according to the plan adopted by the District of Columbia on September 18, 1998. However, the Trust Fund does not receive any employee or employer contributions because pension liability for all service accruing on or after July 1, 1997, is the exclusive responsibility of the District of Columbia.

Voluntary retirement is available for teachers with five years of school service who have attained age 62; age 60 with 20 years of total service, including at least five years of school service; age 55 with 30 years of total service, including at least five years of school service; and at any age with 30 years of total service, including at least five years of school service, if hired by the school system on or after November 16, 1996.

The annuity is equal to 1.5% of three-year average pay times years of service up to five years, plus 1.75% of average pay times years of service between five and ten years, plus 2% of average pay times years of service over ten years. For participants hired on or after November 16, 1996, the annuity is equal to 2.0% of three-year average pay times all years of service.

Participants who have five years of school service and who have a physical or mental disability that prevents them from performing their job, may be eligible for disability retirement. Disability benefits are based on the voluntary retirement benefit subject to a minimum of the lesser of 40% of average pay or the benefit the member would receive using average pay at the time of disability with service projected to age 60.

Employees who are involuntarily separated other than for misconduct or delinquency and who have five years of school service, may be eligible for retirement at any age. The retirement benefit is calculated in the same manner as voluntary retirement, except that the involuntary retirement benefit is reduced 1/6% per month (2% per year) for each full month the teacher is under age 55 at the time of separation from the school system.

All participants receive an annuity increase effective each March 1st based on the annual change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (all items – U.S. City Average) from December to December.

Participant Data

For the September 30, 2004, and 2003, actuarial valuations, the participants eligible to receive a Federal benefit are as follows:

	2004	2003
Active members	3,186	3,437
Retirees and beneficiaries	5,497	5,517
Vested terminated members	25	25
Total	<u>8,708</u>	<u>8,979</u>

(c) ***Judges' Retirement Plan***

Eligibility

A participant becomes a member of the Plan when he or she becomes a judge of the D.C. Court of Appeals or the Superior Court, or when he or she becomes the Executive Officer of the District Court System. A participant's contribution equals 3.5% of annual salary plus an optional 3.5% of annual salary for survivors' benefits. The Judicial Retirement Fund receives the employee contributions.

Members are eligible for normal retirement with full benefits at age 50 with at least 20 years of judicial service, at age 60 with at least 10 years of judicial service (seven years of service for the executive officer), or upon reaching age 74. The annuity is equal to the basic salary at retirement times the total years of judicial service divided by 30, plus 1.5% of basic salary times credited service up to five years, plus 1.75% of basic salary times credited service between five years and 10 years, plus 2% of basic salary times credited service over 10 years, subject to a maximum benefit of 80% of final salary at retirement.

A judge electing to retire with at least 10 years of judicial service (at least seven years if the Executive Officer) but less than 20 years of judicial service between ages 55 and 60 shall receive an annuity based on the above formula, reduced by 1/12% per month or fraction of a month (1% per year) for each year the participant is under age 60 at retirement. Judges and the Executive Officer are eligible for disability benefits after five years of total service if they have a physical or mental disability that seriously interferes with the proper performance of duties. The annuity to be received under a disability retirement will be a normal benefit subject to a minimum benefit of 50% of salary.

All participants receive an annuity increase each January based on the annual change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (all items – U.S. City Average) from September to September. This cost of living increase is the same increase provided for annuitants in the Federal Civil Service Retirement System (CSRS).

Participant Data

For the September 30, 2004, and 2003, actuarial valuations, the participants eligible to receive a Federal benefit are as follows:

	2004	2003
Active members	69	66
Retirees and beneficiaries	74	72
Vested terminated members	1	2
Total	144	140

Application of Statutory Purchase of Service Provisions (Judges)

The Office previously had determined that the District had used incorrect methods to calculate the cost for judges to purchase credit for non-judicial service. The Judges' Plan allows judges to elect to receive service credit for certain military and civilian service with the U.S. Government. If a judge received a lump sum payout from another civilian retirement plan for service that is creditable, the judge must deposit 3.5% of his or her basic pay for each year of service to obtain credit for the service under the Judges' Plan.

The judge must also pay interest on the deposit for the period from when the service ended to the date when the deposit is made. Until 1980, the interest rate was 3%. From 1980 on, the interest rate is a variable rate tied to the performance of the fund in which plan assets are held. The District continued to charge 3% after 1980, which resulted in judges who purchased service credit receiving full credit without paying the amount of interest required by statute. The correct methodology has been used since November 2001, and the Office is working to resolve past errors.



PART 4

SUPPLEMENTARY SCHEDULES

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Balance Sheets
As of September 30, 2004 and 2003
(in thousands)

	DC Judicial Retirement and Survivors Annuity Fund FY 2004	Federal Supplemental DC Pension Fund FY 2004	DC Federal Pension Liability Trust Fund FY 2004	Consolidated DC Pension Funds Total FY 2004	DC Judicial Retirement and Survivors Annuity Fund FY 2003	Federal Supplemental DC Pension Fund FY 2003	DC Federal Pension Liability Trust Fund FY 2003	Consolidated DC Pension Funds Total FY 2003
Assets								
Entity Assets								
Intra-Governmental Assets								
Fund Balance with Treasury	\$ 25	-	226	251	28	1	245	274
Investments in GAS Securities, Net	101,949	2,087,848	1,717,714	3,907,511	95,789	1,738,844	2,107,764	3,942,397
Interest Receivable from GAS Securities	1,323	23,819	26,801	51,943	1,280	21,416	31,413	54,109
Advances to Others	3	-	31	34	-	-	-	-
Software-In-Development	-	-	891	891	-	-	-	-
ADP Software, Net	1,553	-	16,179	17,732	2,146	-	21,481	23,627
Equipment, Net	32	-	286	318	23	-	207	230
Accounts Receivable	18	-	16,005	16,023	13	-	8,500	8,513
Total Assets	\$ 104,903	2,111,667	1,778,133	3,994,703	99,279	1,760,261	2,169,610	4,029,150
Liabilities								
Liabilities Covered By Budgetary Resources								
Intra-Governmental								
Accounts Payable	4	-	50	54	5	-	48	53
Accrued Payroll & Benefits	1	-	13	14	1	-	8	9
Accounts Payable	78	-	4,731	4,809	99	-	19,857	19,956
Accrued Pension Benefits Payable	553	-	41,956	42,509	485	-	39,114	39,599
Actuarial Pension Liability	104,237	-	3,842,780	3,947,017	98,663	-	3,870,607	3,969,270
Accrued Payroll & Benefits	30	-	270	300	26	-	237	263
Total Liabilities Covered By Budgetary Resources	104,903	-	3,889,800	3,994,703	99,279	-	3,929,871	4,029,150
Liabilities Not Covered By Budgetary Resources								
Actuarial Pension Liability	25,710	-	4,394,564	4,420,274	29,052	-	4,306,179	4,335,231
Total Liabilities	130,613	-	8,284,364	8,414,977	128,331	-	8,236,050	8,364,381
Net Position:								
Cumulative Results of Operations	(25,710)	2,111,667	(6,506,231)	(4,420,274)	(29,052)	1,760,261	(6,066,440)	(4,335,231)
Total Net Position	(25,710)	2,111,667	(6,506,231)	(4,420,274)	(29,052)	1,760,261	(6,066,440)	(4,335,231)
Total Liabilities & Net Position	\$ 104,903	2,111,667	1,778,133	3,994,703	99,279	1,760,261	2,169,610	4,029,150

Department of the Treasury
 Departmental Offices
 Office of D.C. Pensions
 Consolidating Statements of Net Cost
 For the Years Ended September 30, 2004 and 2003
 (in thousands)

	DC Judicial Retirement and Survivors Annuity Fund FY 2004	Federal Supplemental DC Pension Fund FY 2004	DC Federal Pension Liability Trust Fund FY 2004	Consolidated DC Pension Funds Total FY 2004	DC Judicial Retirement and Survivors Annuity Fund FY 2003	Federal Supplemental DC Pension Fund FY 2003	DC Federal Pension Liability Trust Fund FY 2003	Consolidated DC Pension Funds Total FY 2003
Program Costs								
Intra-Governmental								
Administrative Expenses	\$ 464	-	3,586	4,050	427	-	3,414	3,841
Pension Expense	8,312	-	514,180	522,492	15,569	-	406,756	422,325
Administrative Expenses	1,230	-	15,087	16,317	854	-	14,331	15,185
Total Program Costs	10,006	-	532,853	542,859	16,850	-	424,501	441,351
Less: Earned Revenues								
Interest Earned from GAS Securities	5,282	81,406	92,936	179,624	5,169	69,539	120,836	195,544
Employee Contributions	552	-	-	552	522	-	-	522
Net Cost of Operations	\$ 4,172	(81,406)	439,917	362,683	11,159	(69,539)	303,665	245,285

Department of the Treasury
 Departmental Offices
 Office of D.C. Pensions
 Consolidating Statements of Changes in Net Position
 For the Years Ended September 30, 2004 and 2003
 (in thousands)

	DC Judicial Retirement and Survivors Annuity Fund FY 2004	Federal Supplemental DC Pension Fund FY 2004	DC Federal Pension Liability Trust Fund FY 2004	Consolidated DC Pension Funds Total FY 2004	DC Judicial Retirement and Survivors Annuity Fund FY 2003	Federal Supplemental DC Pension Fund FY 2003	DC Federal Pension Liability Trust Fund FY 2003	Consolidated DC Pension Funds Total FY 2003
Net Position - Beginning of Year	\$ (29,052)	1,760,261	(6,066,440)	(4,335,231)	(24,608)	1,421,522	(5,762,916)	(4,366,002)
Financing Sources (Other Than Exchange Revenue)								
Appropriations Used	7,500	270,000	-	277,500	6,700	269,200	-	275,900
Additional Proceeds from DC Asset Liquidation	-	-	-	-	-	-	1	1
Imputed Financing Sources	14	-	126	140	15	-	140	155
Total Financing Sources	<u>7,514</u>	<u>270,000</u>	<u>126</u>	<u>277,640</u>	<u>6,715</u>	<u>269,200</u>	<u>141</u>	<u>276,056</u>
Net Cost of Operations	(4,172)	81,406	(439,917)	(362,683)	(11,159)	69,539	(303,665)	(245,285)
Net Position - End of Year	<u>\$ (25,710)</u>	<u>2,111,667</u>	<u>(6,506,231)</u>	<u>(4,420,274)</u>	<u>(29,052)</u>	<u>1,760,261</u>	<u>(6,066,440)</u>	<u>(4,335,231)</u>

Department of the Treasury
 Departmental Offices
 Office of D.C. Pensions
 Combining Statements of Budgetary Resources
 For the Years Ended September 30, 2004 and 2003
 (in thousands)

	DC Judicial Retirement and Survivors Annuity Fund FY 2004	Federal Supplemental DC Pension Fund FY 2004	DC Federal Pension Liability Trust Fund FY 2004	Combined DC Pension Funds Total FY 2004	DC Judicial Retirement and Survivors Annuity Fund FY 2003	Federal Supplemental DC Pension Fund FY 2003	DC Federal Pension Liability Trust Fund FY 2003	Combined DC Pension Funds Total FY 2003
Budgetary Resources								
Budget Authority	\$ 20,239	591,904	116,228	728,371	18,940	566,539	127,587	713,066
Unobligated Balance - Beginning of Year	90,577	-	1,992,169	2,082,746	84,536	-	2,345,489	2,430,025
Spending Authority from Offsetting Collections	9	-	11,214	11,223	-	-	6,818	6,818
Temporarily Unavailable Pursuant to Public Law	-	(321,904)	-	(321,904)	-	(297,339)	-	(297,339)
Total Budgetary Resources	<u>\$ 110,825</u>	<u>270,000</u>	<u>2,119,611</u>	<u>2,500,436</u>	<u>103,476</u>	<u>269,200</u>	<u>2,479,894</u>	<u>2,852,570</u>
Status of Budgetary Resources								
Obligations Incurred	\$ 14,756	270,000	485,743	770,499	12,899	269,200	487,725	769,824
Unobligated Balances Available	96,069	-	1,633,868	1,729,937	90,577	-	1,992,169	2,082,746
Total Status of Budgetary Resources	<u>\$ 110,825</u>	<u>270,000</u>	<u>2,119,611</u>	<u>2,500,436</u>	<u>103,476</u>	<u>269,200</u>	<u>2,479,894</u>	<u>2,852,570</u>
Relationship of Obligations to Outlays								
Obligated Balance, Net - Beginning of Year	\$ 1,241	-	66,937	68,178	2,261	-	67,837	70,098
Obligations Incurred	14,756	270,000	485,743	770,499	12,899	269,200	487,725	769,824
Obligated Balance, Net - End of Year	(1,359)	-	(53,848)	(55,207)	(1,241)	-	(66,937)	(68,178)
Outlays								
Disbursements	14,638	270,000	498,832	783,470	13,919	269,200	488,625	771,744
Collections	(9)	-	(11,214)	(11,223)	-	-	(6,818)	(6,818)
Total Outlays	<u>14,629</u>	<u>270,000</u>	<u>487,618</u>	<u>772,247</u>	<u>13,919</u>	<u>269,200</u>	<u>481,807</u>	<u>764,926</u>
Less: Offsetting Receipts	5,834	81,406	92,936	180,176	5,691	69,539	120,837	196,067
Net Outlays	<u>\$ 8,795</u>	<u>188,594</u>	<u>394,682</u>	<u>592,071</u>	<u>8,228</u>	<u>199,661</u>	<u>360,970</u>	<u>568,859</u>

Department of the Treasury
 Departmental Offices
 Office of D.C. Pensions
 Consolidating Statements of Financing
 For the Years Ended September 30, 2004 and 2003
 (in thousands)

	DC Judicial Retirement and Survivors Annuity Fund FY 2004	Federal Supplemental DC Pension Fund FY 2004	DC Federal Pension Liability Trust Fund FY 2004	Consolidated DC Pension Funds Total FY 2004	DC Judicial Retirement and Survivors Annuity Fund FY 2003	Federal Supplemental DC Pension Fund FY 2003	DC Federal Pension Liability Trust Fund FY 2003	Consolidated DC Pension Funds Total FY 2003
Budgetary Resources Obligated								
Obligations Incurred	\$ 14,756	270,000	485,743	770,499	12,899	269,200	487,725	769,824
Less: Spending Authority from Offsetting Collections and Adjustments	9	-	11,214	11,223	-	-	6,818	6,818
Obligations Net of Offsetting Collections and Recoveries	14,747	270,000	474,529	759,276	12,899	269,200	480,907	763,006
Less: Offsetting Receipts	5,834	81,406	92,936	180,176	5,691	69,539	120,837	196,067
Net Obligations	8,913	188,594	381,593	579,100	7,208	199,661	360,070	566,939
Imputed Financing from Costs Absorbed by Others	14	-	126	140	15	-	140	155
Total Resources Used to Finance Activities	8,927	188,594	381,719	579,240	7,223	199,661	360,210	567,094
Resources Used to Finance Items Not Part of the Net Cost of Operations								
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	71	-	(813)	(742)	(680)	-	2,605	1,925
Resources That Fund Expenses Recognized in Prior Periods	-	-	7,504	7,504	-	-	52,512	52,512
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations	-	-	-	-	-	-	(1)	(1)
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	(148)	-	290	142	160	-	3,855	4,015
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	7,500	270,000	-	277,500	6,700	269,200	-	275,900
Total Resources used to Finance Items not part of the Net Cost of Operations	7,423	270,000	6,981	284,404	6,180	269,200	58,971	334,351
Total Resources Used to Finance Net Cost of Operations	1,504	(81,406)	374,738	294,836	1,043	(69,539)	301,239	232,743
Components Requiring or Generating Resources in Future Periods								
Future Funded Expenses	2,232	-	60,558	62,790	9,873	-	-	9,873
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	2,232	-	60,558	62,790	9,873	-	-	9,873
Components not Requiring or Generating Resources								
Depreciation and Amortization	436	-	4,621	5,057	243	-	2,426	2,669
Total Components of Net Cost Operations that will not Require or Generate Resources in Future Periods	436	-	4,621	5,057	243	-	2,426	2,669
Total Components of Net Cost Operations that will not Require or Generate Resources in Current Periods	2,668	-	65,179	67,847	10,116	-	2,426	12,542
Net Cost of Operations	\$ 4,172	(81,406)	439,917	362,683	11,159	(69,539)	303,665	245,285

DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

Office of D.C. Pensions

Supplemental Information Consolidating Intra-governmental Balances

As of and for the years ended September 30, 2004 and 2003

(in thousands)

		2004				2003			
<u>Department</u>	<u>Intra-governmental balance description</u>	<u>D.C. Judicial Retirement and Survivors Annuity Fund</u>	<u>Federal Supplemental D.C. Pension Fund</u>	<u>D.C. Federal Pension Liability Trust Fund</u>	<u>Consolidated D.C. Pension Funds Total</u>	<u>D.C. Judicial Retirement and Survivors Annuity Fund</u>	<u>Federal Supplemental D.C. Pension Fund</u>	<u>D.C. Federal Pension Liability Trust Fund</u>	<u>Consolidated D.C. Pension Funds Total</u>
Assets:									
Treasury	Fund Balance with Treasury	\$ 25	—	226	251	\$ 28	1	245	274
Treasury	Interest receivable from GAS securities	1,323	23,819	26,801	51,943	1,280	21,416	31,413	54,109
Treasury	Investments in GAS securities, net	101,949	2,087,848	1,717,714	3,907,511	95,789	1,738,844	2,107,764	3,942,397
	Total intra-governmental assets	\$ 103,297	2,111,667	1,744,741	3,959,705	\$ 97,097	1,760,261	2,139,422	3,996,780
Liabilities:									
Treasury	Accounts Payable	\$ 2	—	33	35	\$ 5	—	48	53
GSA	Accounts Payable	2	—	17	19	—	—	—	—
Gen Fund	Accrued Payroll & Benefits	—	—	4	4	—	—	2	2
OPM	Accrued Payroll & Benefits	1	—	9	10	1	—	6	7
	Total intra-governmental liabilities	\$ 5	—	63	68	\$ 6	—	56	62
Revenues:									
Treasury	Interest earned from GAS Securities	\$ 5,282	81,406	92,936	179,624	\$ 5,169	69,539	120,836	195,544
OPM	Imputed Financing Sources	14	—	126	140	15	—	140	155
	Total intra-governmental revenues	\$ 5,296	81,406	93,062	179,764	\$ 5,184	69,539	120,976	195,699
Expenses:									
Treasury	Contractual Services	\$ 411	—	3,120	3,531	\$ 362	—	2,823	3,185
Labor	Contractual Services	—	—	—	—	9	—	77	86
OPM	Contractual Services	—	—	1	1	—	—	—	—
GSA	Contractual Services	2	—	17	19	4	—	32	36
GPO	Contractual Services	0	—	6	6	3	—	37	40
USPS	Contractual Services	1	—	7	8	—	—	—	—
OPM	Employee Benefits Expense	25	—	214	239	25	—	222	247
Gen Fund	Employee Benefits Expense	11	—	95	106	9	—	83	92
OPM	Imputed Costs (OPEB)	14	—	126	140	15	—	140	155
	Total intra-governmental expenses	\$ 464	—	3,586	4,050	\$ 427	—	3,414	3,841

See accompanying independent auditors' report.

DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Investments in GAS Securities - Net By Fund

As of September 30, 2004 and 2003

(in thousands)

	2004				2003			
	Cost	Unamortized Premium Net	Investments Net	Market Value	Cost	Unamortized Premium Net	Investments Net	Market Value
D. C. Judicial Retirement and Survivors Annuity Fund:								
Intragovernmental Securities								
Non-marketable Par Value	\$ 5,056	-	5,056	5,056	\$ 6,330	-	6,330	6,330
Non-marketable Market-based	94,550	2,343	96,893	104,284	87,663	1,796	89,459	100,490
Total	<u>\$ 99,606</u>	<u>2,343</u>	<u>101,949</u>	<u>109,340</u>	<u>\$ 93,993</u>	<u>1,796</u>	<u>95,789</u>	<u>106,820</u>
Federal Supplemental D.C. Pension Fund:								
Intragovernmental Securities								
Non-marketable Par Value	\$ -	-	-	-	\$ -	-	-	-
Non-marketable Market-based	1,970,746	117,102	2,087,848	2,166,140	1,648,842	90,002	1,738,844	1,869,031
Total	<u>\$ 1,970,746</u>	<u>117,102</u>	<u>2,087,848</u>	<u>2,166,140</u>	<u>\$ 1,648,842</u>	<u>90,002</u>	<u>1,738,844</u>	<u>1,869,031</u>
D.C. Federal Pension Liability Trust Fund:								
Intragovernmental Securities								
Non-marketable Par Value	\$ 188,619	-	188,619	188,619	\$ 203,605	-	203,605	203,605
Non-marketable Market-based	1,502,565	26,530	1,529,095	1,572,025	1,867,012	37,147	1,904,159	2,021,715
Total	<u>\$ 1,691,184</u>	<u>26,530</u>	<u>1,717,714</u>	<u>1,760,644</u>	<u>\$ 2,070,617</u>	<u>37,147</u>	<u>2,107,764</u>	<u>2,225,320</u>

See accompanying independent auditors' report.

DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Investments in Nonmarketable Market-Based GAS Securities - Net By Fund and Maturity

As of September 30, 2004 and 2003

(in thousands)

	2004				2003			
	<u>D.C. Judicial Retirement and Survivors Annuity Fund</u>	<u>Federal Supplemental D.C. Pension Fund</u>	<u>D.C. Federal Pension Liability Trust Fund</u>	<u>Consolidated D.C. Pension Funds Total</u>	<u>D.C. Judicial Retirement and Survivors Annuity Fund</u>	<u>Federal Supplemental D.C. Pension Fund</u>	<u>D.C. Federal Pension Liability Trust Fund</u>	<u>Consolidated D.C. Pension Funds Total</u>
Time of Maturity								
Less than or equal to 1 year	\$ -	-	534,765	534,765	\$ -	-	517,740	517,740
More than 1 year and less than or equal to 5 years	75,320	1,512,109	994,330	2,581,759	35,022	787,577	1,386,419	2,209,018
More than 5 years and less than or equal to 10 years	21,573	575,739	-	597,312	54,437	951,267	-	1,005,704
Total	<u>\$ 96,893</u>	<u>2,087,848</u>	<u>1,529,095</u>	<u>3,713,836</u>	<u>\$ 89,459</u>	<u>1,738,844</u>	<u>1,904,159</u>	<u>3,732,462</u>

See accompanying independent auditors' report.

DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Administrative Expenses - By Fund

For the years ended September 30, 2004 and 2003

(in thousands)

	<u>2004</u>			<u>2003</u>		
	<u>D.C. Judicial Retirement and Survivors Annuity Fund</u>	<u>D.C. Federal Pension Liability Trust Fund</u>	<u>Consolidated D.C. Pension Funds Total</u>	<u>D.C. Judicial Retirement and Survivors Annuity Fund</u>	<u>D.C. Federal Pension Liability Trust Fund</u>	<u>Consolidated D.C. Pension Funds Total</u>
Salaries and Related Benefits	\$ 264	2,278	2,542	\$ 265	2,340	2,605
Contractual Services	906	10,916	11,822	666	12,010	12,676
Rent	64	637	701	67	606	673
Noncapitalized Equipment/Software	458	4,825	5,283	277	2,739	3,016
Other	<u>2</u>	<u>17</u>	<u>19</u>	<u>5</u>	<u>51</u>	<u>56</u>
Total Administrative Expenses	\$ <u>1,694</u>	<u>18,673</u>	<u>20,367</u>	\$ <u>1,280</u>	<u>17,746</u>	<u>19,026</u>

See accompanying independent auditors' report.

DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Pension Expense - By Fund

For the years ended September 30, 2004 and 2003

(in thousands)

	2004			2003		
	D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Liability Trust Fund	Consolidated D.C. Pension Funds Total	D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Liability Trust Fund	Consolidated D.C. Pension Funds Total
Normal Cost	\$ 4,100	-	4,100	\$ 4,000	-	4,000
Actuarial (Gains) Losses During the Period	(3,288)	40,491	37,203	4,583	(80,862)	(76,279)
Interest on Pension Liability During the Period	7,500	479,100	486,600	6,900	482,300	489,200
Judges Refund Payments	-	-	-	86	-	86
Longevity Pension Pay Adjustment	-	(5,411)	(5,411)	-	5,318	5,318
Total Pension Expense	\$ <u>8,312</u>	<u>514,180</u>	<u>522,492</u>	\$ <u>15,569</u>	<u>406,756</u>	<u>422,325</u>

See accompanying independent auditors' report.